



COUNTY OF SAN LUIS OBISPO
AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR

**Health Agency
Cash Procedures & Internal Control Review
August 2016**

**JAMES P. ERB, CPA
Auditor-Controller
Treasurer-Tax Collector-Public Administrator**



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TO: JEFF HAMM, HEALTH AGENCY DIRECTOR

FROM: JAMES P. ERB, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR *J.E.*

DATE: AUGUST 8, 2016

SUBJECT: CASH PROCEDURES AND INTERNAL CONTROL REVIEW OF THE HEALTH AGENCY CONDUCTED FEBRUARY AND MARCH 2016

Our office recently completed a cash procedures and internal control review that took place on various dates in February and March 2016. Our review resulted in 1 finding and 5 suggested improvements. We have included the Health Agency's response to our finding in this report.

Purpose

The purpose of our review was to determine compliance with the County Auditor-Controller's Cash Handling Policy, to establish accountability for the cash on hand at the time of the review, to assess the controls over purchasing and gift cards and to determine compliance with the County Information Technology (IT) Acceptable Use Policy Acknowledgement signature requirements.

Scope

The scope of our review included cash, cash equivalents and receipts on hand on the dates of our review as well as deposits for the prior three months. Additionally, we reviewed the agency's depository accounts, Cal-Card activity and controls over MasterCards. County IT Acceptable Use Policy Acknowledgements signed in the past calendar year were also sampled and examined.

Methodology

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The International Standards for the Professional Practice of Internal Auditing require that the internal audit activity be independent and internal auditors be objective in performing their work. The Standards also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.

Our review included physically counting all cash on hand and reconciling the amount to the department's accountability figures. We examined cash receipts and compared the amounts to the corresponding receipts total and to the subsequent deposit. Our review also included an evaluation of internal controls over cash receipts, cash equivalents, MasterCards and Cal-Card

activity. Our evaluation of internal controls was limited to inquiries of departmental staff and direct observations.

Additionally we tested for compliance with the County of San Luis Obispo Information Security Program's requirement that employees annually sign the Acceptable Use Policy Acknowledgement form.

Results

We determined all cash funds and cash receipts on hand, in all material respects, to be in balance at the time of our count. The Department's internal controls over cash equivalents, MasterCards and Cal-Cards appear to be adequate. Employees signed the IT Acceptable Use Policy Acknowledgement form in a timely manner with the exceptions noted below.

The department is in general compliance with the Cash Handling Policy with the exception noted in the Findings and Recommendations section of this report below. Findings are issues which present a serious enough risk to require consideration by management and a written department response.

Additionally, during fieldwork we identified some areas where improvements could be made, and we immediately provided the site with suggestions for making these improvements. Suggestions for improvement are made for issues that the auditor considers not to be of an immediate serious nature and/or for issues which the site is able to correct at the time of the audit. Unlike formal audit findings, written departmental responses are not required for these issues. Our suggestions are detailed in the Suggested Improvements section below.

Findings & Recommendations

1. Petty Cash Reimbursement Not Secured

We observed a petty cash reimbursement of \$49.89 stored in an unsecured location. The County Auditor-Controller's Cash Handling Policy requires all cash to be properly secured in a locked location. The petty cash custodian stored the reimbursement in an unlocked drawer to facilitate reimbursement to an employee; however, when cash is secured, the risk for theft and misplacement significantly decreases.

Recommendation

We recommend all cash be stored in a secure location.

Department's Response

We understand that the Cash Handling Policy requires all cash to be properly secured in a locked location. We have counseled the specific petty cash custodian at this particular location as well as reminded all cash custodians of the importance of properly securing stored cash at all times in a locked location. In addition, we are following your verbal recommendation and removing the petty cash function from this particular site based on its infrequent use.

Suggested Improvements

1. Bus Passes Not Tracked

At one location, we found four bus passes that were not being tracked because staff were unsure of the best way to account for the passes. The Cash Handling Policy requires departments to maintain controls for all cash equivalents. When cash equivalents are tracked, the risk for theft and misplacement significantly decreases. We recommended instituting a tracking log for the bus passes, and the site staff subsequently created a log.

2. Petty Cash Receipts Not Marked as Paid

At one location, we found two of three petty cash receipts tested were not marked paid as required by the Cash Handling Policy. The petty cash custodian had inadvertently not stamped the receipts with the paid stamp. Marking petty cash receipts as paid reduced the risk of receipts being resubmitted for additional reimbursement. We recommended additional attention be paid to marking all petty cash receipts as paid.

3. Certification of Cash Handling Policy

At one location, we found one manager had not certified in writing the reading of the Cash Handling Policy. Certification is required for all managers and custodians of cash functions; however, site staff were unaware of the requirement that managers must certify. Review of the Cash Handling Policy decreases the risk of fraud, waste, and abuse of County funds. Subsequent to fieldwork, we received verification the manager had read the Cash Handling Policy.

4. Information Technology Acceptable Use Policy

We found two of 58 employees sampled had not signed the Information Technology Acceptable Use Policy (ITAUP) within the year prior to our review, due to an oversight in monitoring. By signing the policy annually, as required by Section 4 of the Information Security Program Master Security Policy, employees acknowledge they are bound by the ITAUP. Employee acknowledgment of the ITAUP reduces the risk of inappropriate use and exposure of County computing systems. We recommend that supervisors immediately follow-up with employees who are delinquent in signing the ITAUP.

5. Insufficient Petty Cash Fund

At one location we noted the petty cash fund was being frequently replenished, and staff reported instances where employee reimbursements were delayed due to insufficient funds. Good business practices include maintaining sufficient petty cash funds to reimburse employees in a timely manner. The locations' petty cash needs have outgrown the base amount increasing the workload associated with replenishment and the capacity for errors. We recommend the Health Agency consider requesting an increase to the petty cash fund that will support approximately two months of activity.

We appreciate the courteous attitude of your staff and the cooperation we received during the course of our review.